

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 14, 2008
POSITION: Neutral, note fiscal concerns

BILL NUMBER: SB 1064
AUTHOR: D. Hollingsworth

BILL SUMMARY: Disaster Relief

This bill, an urgency measure, would reimburse local entities in 17 counties for the first year property tax revenue loss from the wildfires that occurred during the calendar year 2007, as well as May, June, and July 2008, and the damaging winds that occurred in October 2007 in Riverside County. This bill would allow homeowners whose homes were damaged or destroyed by the wildfires and damaging winds to remain eligible for the homeowners' property tax exemption. This bill would also allow taxpayers disaster loss carry-forward treatment for losses sustained in the wildfires and damaging wind.

The bill also changes the fiscal year for which El Dorado County can receive reimbursement for wildfire-related property tax losses pursuant to Chapter 224, Statutes of 2007 (AB 62, Nava) from 2006-07 to 2007-08.

FISCAL SUMMARY

The Board of Equalization (BOE) indicates the provision that provides reimbursement to local jurisdictions for loss of property tax revenue due to continuation of the homeowners' exemption for homes that are unoccupied is estimated to be \$185,000 for homes damaged or destroyed.

The BOE indicates that the county assessors estimate property damaged or destroyed total approximately \$510 million, resulting in General Fund backfill to local jurisdictions of \$5.1 million for property tax revenue loss. The BOE indicates it would have minor cost associated with this bill.

The Franchise Tax Board (FTB) estimates the provision that provides taxpayers disaster loss carry-forward treatment if all excess losses are deducted on an amended 2006 tax return would result in a revenue loss of less than \$250,000 in 2007-08. To the extent these deductions would have been claimed in later years had they not been taken in 2006, there is an insignificant revenue gain in those later years. The FTB indicates that enactment of this bill would not impact its programs or operations.

COMMENTS

Finance notes the following concerns regarding this bill:

- This bill would provide relief to local entities and homeowners in 17 counties for losses suffered in the 2007 wildfires, and the damaging winds in Riverside County in October 2007, and the wildfires that occurred in May, June, and July 2008. While such relief has been provided frequently in past years, the ability of the state to fund county property tax losses, in particular, is more difficult in the state's current fiscal circumstances.

Finance notes that the cost for the wildfires that occurred May through July 2008 is preliminary and based on limited incoming data. We expect these numbers to change.

Analyst/Principal (0761) C. Hill	Date	Program Budget Manager Mark Hill	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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D. Hollingsworth

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SB 1064

ANALYSIS

A. Programmatic Analysis

Under existing law, a county board of supervisors may adopt an ordinance authorizing an assessee to apply for the reassessment of property damaged by misfortune or disaster. If the reassessment results from damage sustained in a Governor-declared disaster, the assessee may apply to the county for deferral of the next installment of property taxes that is due following the date of the disaster. The county may apply to the state for a "bridge loan" to cover its cash flow loss during the period of deferment. Those loans must be repaid by the county in full.

In recent years, special provisions have been enacted in response to floods, earthquakes, and fires, under which counties were required to pay back only that portion of the loan that exceeded their actual property tax losses attributable to the damages. In effect, the state has held local governments harmless against disaster-related property tax losses for the fiscal year of the disaster.

This bill, an urgency measure, would reimburse local entities in the counties of Butte, Kern, Los Angeles, Mariposa, Mendocino, Monterey, Orange, Plumas, Riverside, San Bernardino, San Diego, Santa Barbara, Santa Clara, Santa Cruz, Shasta, Trinity, and Ventura for the first year property tax revenue loss from the wildfires that occurred during the 2007 calendar year, as well as May, June, and July 2008, and the damaging winds that occurred in October 2007 in Riverside County.

Under current law, the California Constitution exempts the first \$7,000 of the full value of a property from property tax, if that property is occupied by the owner as his or her principal residence. This provision is commonly referred to as the "homeowners' exemption." If the property is no longer owner-occupied or if it becomes vacant or is under construction on the lien date of January 1, then the property is not eligible for the property tax exemption for the upcoming tax year. The state is required to reimburse local governments for property tax revenue losses as a result of the homeowners' property tax exemption.

This bill would allow homeowners whose homes were damaged or destroyed by the wildfires and damaging winds to remain eligible for the homeowners' property tax exemption while they are in the process of rebuilding as specified.

Current law provides for the treatment of two types of losses, which are casualty losses and disaster losses. A casualty loss occurs when property is destroyed as a result of a sudden, unexpected, or unusual cause such as a fire, storm, or flood. A disaster loss occurs when property is destroyed as the result of a natural event proclaimed a disaster by the President of the United States, or in California, counties or cities proclaimed to be in a state of disaster by the Governor.

Under state law, uninsured casualty losses are deductible to the extent that each loss exceeds \$100 and the total loss exceeds 10 percent of the taxpayer's adjusted gross income (AGI). The itemized deduction may be taken in the year the casualty loss occurred. Taxpayers who have incurred a disaster loss may claim the loss in the year preceding the loss. As with casualty losses, the deduction for non-business disaster losses is subject to the \$100 loss floor and the 10 percent of AGI limitations.

Uninsured casualty and disaster losses may result in a net operating loss (NOL) for the taxpayer. Subject to legislative approval, 100 percent of NOLs incurred on or after January 1, 2004 may be carried forward for up to 15 years if not claimed in a preceding year, and therefore offset a taxpayer's tax liability.

This bill would allow taxpayers disaster loss carry-forward treatment for losses sustained in the wildfires and losses sustained as result of wind damage as specified in the Governor's proclamation.

B. Fiscal Analysis

The BOE indicates the provision that provides reimbursement to local jurisdictions for loss of property tax revenue due to continuation of the homeowners' exemption for homes that are unoccupied is estimated to be \$185,000 for homes damaged or destroyed.

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BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)
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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							
	LA	(Dollars in Thousands)							
	CO	PROP							Fund
	RV	98	FC	2008-2009	FC	2009-2010	FC	2010-2011	Code
0860/Equalization	SO	No		-----	No/Minor Fiscal Impact	-----			0001
1730/FTB	SO	No		-----	No/Minor Fiscal Impact	-----			0001
9210/LocGovtFin	LA	No	C	\$5,100		--		--	0001
9100/Tax Relief	LA	No	C	\$185		--		--	0001
1147/Pers Inc Tax	RV	No	U	-\$250		--		--	0001